



CPA National
Firm Practice Management Study

Understanding the MAP Landscape

2006 PCPS/TSCPA National MAP Survey Data

Table of Contents

Message to Fellow Practitioners	3
<i>Richard Caturano, Chairman, PCPS, The AICPA Alliance for CPA Firms</i>	
<i>John Sharbaugh, Executive Director, Texas State Society of CPAs (TSCPA)</i>	
<i>Adele Brady Bolson, Chairwoman, National MAP Survey Task Force</i>	
Acknowledgements	4
Profiles of Participating Firms	6
How To Read This Report.....	9
Background/Survey Methodology	9
Subgroup Analysis Used in Report.....	10
Research Terms and Definitions.....	11
Reviewing the Data.....	14
Glossary.....	15

Please direct all questions and comments to
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Message to Fellow Practitioners

Dear Colleagues:

Thank you for your interest in the 2006 PCPS/TSCPA National MAP Survey. This marks the fourth year that PCPS, the AICPA Alliance for CPA Firms, and the Texas Society for CPAs (TSCPA) joined together to offer this important management tool to CPA firms across the country. After the 2004 survey was completed, a decision was made, based on feedback from survey respondents as well as the participating state societies, to move the fielding of the National MAP Survey to a bi-annual rather than annual one. We believe the true value of the data is realized after firms have had the opportunity to incorporate what they learn from the results of the survey into their management decisions and then see the changes in the data in the following year.

We had another impressive year in terms of participation with almost 2,000 firms across the country responding. This level of involvement by firms provides a body of data that helps CPAs across the country make better management decisions. We send our thanks to all the firms that responded for their time, effort and thoughtful feedback.

This year's strong response allows us to offer reliable data against which we can benchmark our firms. The data also helps PCPS and sponsoring states develop products and services that best meet member needs. The survey covered subjects including firm revenue, compensation, billable hours, human resource/staffing policies and service offerings.

We could not have achieved this level of participation without the enthusiastic cooperation of the 41 state societies and the Association for Accounting Administration that played a key role in encouraging their members to respond. We look forward to continuing to foster our collaborative efforts in future surveys.

We are also proud to welcome back Aon Insurance Services, the broker and administrator for the AICPA Insurance Programs as a sponsor for the third year. For the second time, supporting sponsorship is being provided by Robert Half Management Resources and for the first time by the Paychex Partner Program from AICPA Business Solutions.

Firms that responded to the survey can receive a 50-80 page presentation-quality, customized PDF, which includes "splits" based on revenue, service line, geography and Average Household Income. In addition, these reports define "top performers" based on earnings per owner and earnings per owner per hour, providing firms with a clear portrait of success against which to benchmark.

On behalf of PCPS and the Texas Society, thank you again for your interest in this important effort.

Sincerely,

Richard Caturano
Chairman
PCPS Executive Committee

John Sharbaugh
Executive Director
Texas Society of CPAs

Adele Brady Bolson
Chairwoman
National MAP Survey Task Force

Acknowledgements

We would like to take this opportunity to acknowledge the many individuals that provided their expertise to make the National MAP Survey a beneficial tool for all practitioners.

The support and commitment of the PCPS Executive Committee and the Texas Society of CPAs helped us to capitalize on past success and grow this year's into our most streamlined and efficient survey yet. The leadership and confidence provided to the AICPA's Firm Practice Management team by the PCPS National MAP Survey Task Force: Adele Brady Bolson (Chairwoman), Bob Fay, Bill Pirolli, Debbie Sessions & Mike Shost was decisive and inspiring.

Our appreciation of the 41 participating State Societies and the Association for Accounting Administration cannot go unnoticed. We value your endorsement and look forward to working closely with you in the future.

Alabama Society of CPAs
Arizona Society of CPAs
Arkansas Society of CPAs
Association for Accounting Administration
California Society of CPAs
Colorado Society of CPAs
Florida Institute of CPAs
Georgia Society of CPAs
Greater Washington Society CPAs
Hawaii Society of CPAs
Idaho Society of CPAs
Illinois CPA Society
Indiana Society of CPAs
Iowa Society of CPAs
Kansas Society of CPAs
Kentucky Society of CPAs
Society of Louisiana CPAs
Maine Society of CPAs
Maryland Association of CPAs
Massachusetts Society of CPAs
Michigan Association of CPAs

Minnesota Society of CPAs
Mississippi Society of CPAs
Missouri Society of CPAs
Montana Society of CPAs
New Hampshire Society of CPAs
New Jersey Society of CPAs
North Carolina Association of CPAs
Ohio Society of CPAs
Oklahoma Society of CPAs
Oregon Society of CPAs
Pennsylvania Institute of CPAs
South Carolina Association of CPAs
South Dakota Society of CPAs
Tennessee Society of CPAs
Texas Society of CPAs
Utah Association of CPAs
Vermont Society of Certified Public Accountants
Virginia Society of CPAs
Washington Society of CPAs
West Virginia Society of CPAs
Wisconsin Institute of CPAs

PCPS and TSPCA would also like to thank our survey sponsors for their invaluable support. For the third time, Aon Insurance Services, the broker and administrator for the AICPA Insurance Programs, led the way as our premiere sponsor. Supporting sponsorship was provided for the second year by Robert Half Management Resources and for the first-time by the Paychex Partner Program from AICPA Business Solutions.

Each of our sponsors' support was vital to the successful execution of this year's survey & we appreciate their commitment.

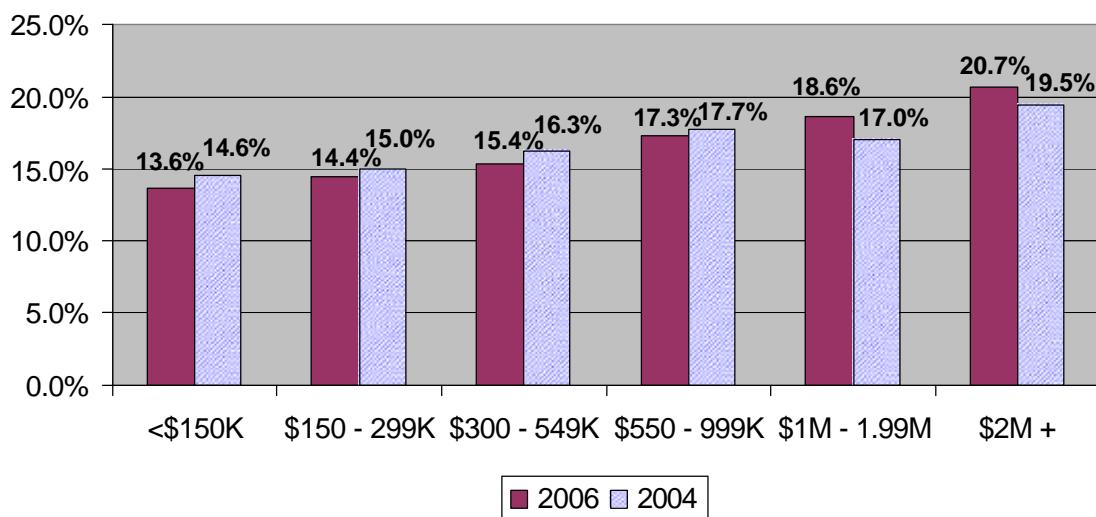


Profiles of Participating Firms

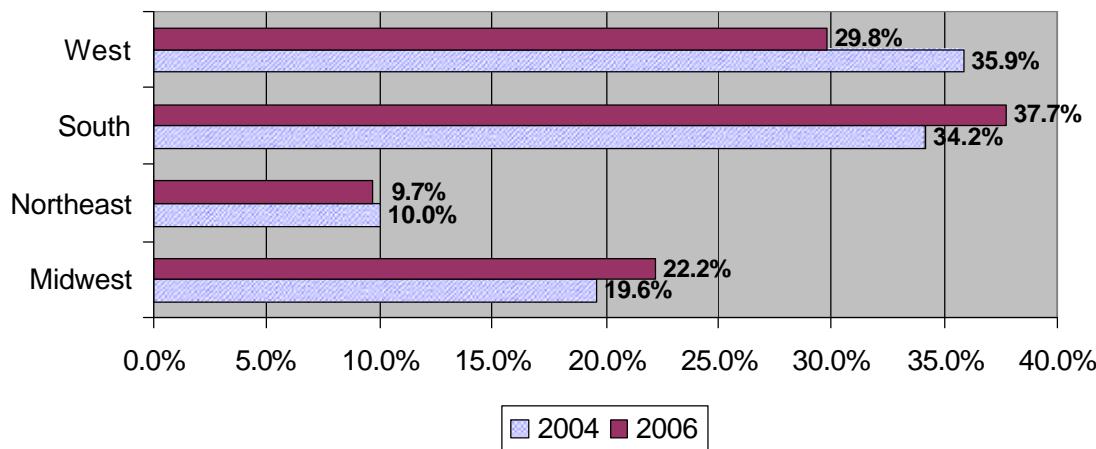
This year, almost 2,000 firms completed the survey. Consistent with past surveys, the respondent base in the 2006 PCPS/TSCPA National MAP Survey comprised a diverse group of firm types that is fairly representative of PCPS, State Society, and AICPA member populations.

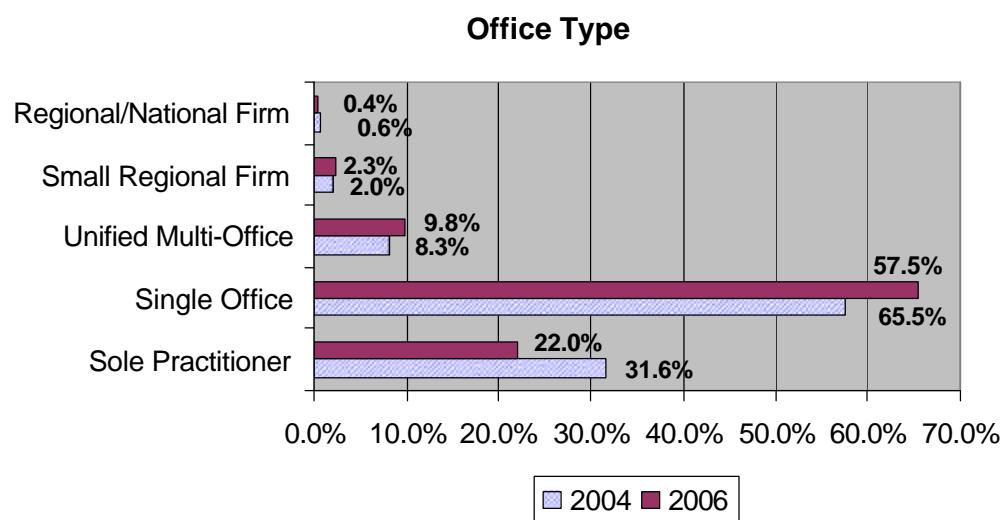
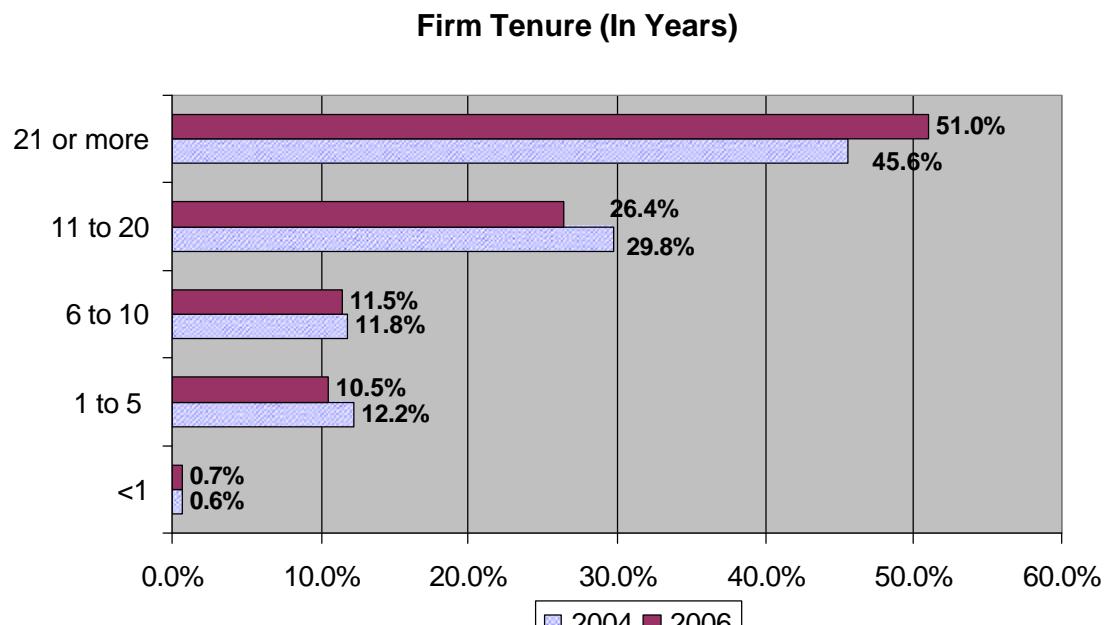
A comparison of key characteristics for respondent firms this year versus 2004 is profiled below:

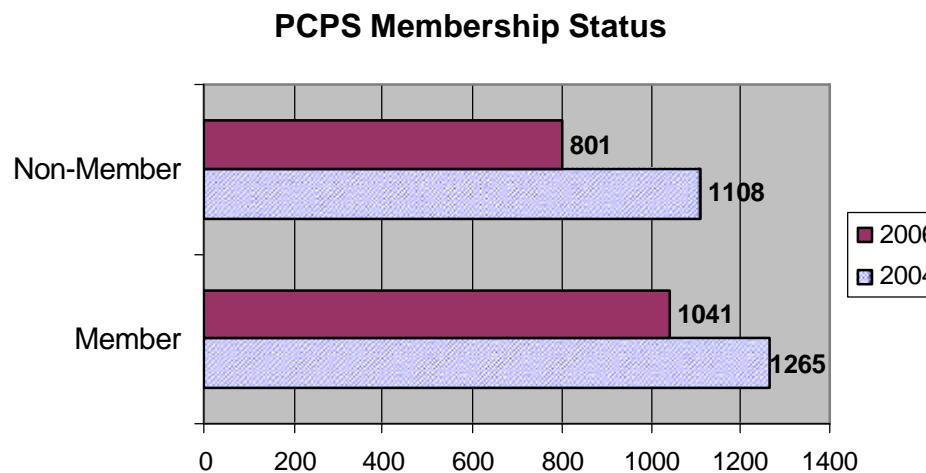
Respondents by Firm Size (By Revenue)



Respondents By Region







The percentage of PCPS member firms participating in the survey has remained relatively consistent since we began administering the survey in 2002, whereas the non-member participation rate fluctuates from year to year. Each year the survey was administered, we experienced an increase in PCPS membership directly attributed to the National MAP Survey.

How to Read This Report

The 2006 PCPS/TSCPA National MAP Survey was conducted among accounting firms throughout the United States. Intellisurvey, an independent market research company, administered this online survey. The survey addresses key metrics that firms rely on to gauge their performance and profitability. It also examines current trends in staffing and employee benefits that are utilized by the profession. Customized results of this comprehensive survey are presented in both graphic and tabular formats.

Background/Survey Methodology

This is the fourth year of this in-depth survey sponsored jointly by PCPS and TSCPA. The survey instrument addresses many questions that were previously covered in the TSCPA MAP Survey.

Approximately 60,000 practitioners were invited to complete the survey via e-mail. Invitees included:

- PCPS member firms
- AICPA Managing Partners
- Member email lists for 12 State Societies (lists were provided to IntelliSurvey)
- 28 State Societies and AAA (they opted to send their own e-mail or mail alerts to members)

The survey was fielded from June 26, 2006 to September 1, 2006. As of the closing date, 1,968 firms had completed the online survey.

As an incentive to participate, practitioners were offered discounts on the purchase of their customized results report. Complimentary customized results reports were offered as a benefit of membership in PCPS.

Respondents were advised that only one response per office would be accepted and that they should confer with partners and colleagues to determine whether someone within the firm had already completed the survey. Respondents were assured of the anonymity of their firm and that results would be provided in aggregate form only. In addition, statistics were suppressed whenever sample sizes were low enough to jeopardize anonymity.

Respondents were encouraged to print a PDF version of the survey designed for their firm size. Reviewing the PDF and gathering pertinent information in advance of completing the online survey was proven to be a great time-saver.

Subgroup Analysis Used in Report

This report provides a comprehensive analysis of firm practices and management trends. Firms are categorized according to their annual revenues - referred throughout the report as Firm Size.

All questions are analyzed in tabular and chart format using the following subgroups:

Your Firm - Only applicable to firms that participated in survey.

Geography

- **National** — aggregated results of all respondent firms
- **Regional** — 4 geographic regions based on National Census divisions.
 - a) Northeast
 - b) South
 - c) West
 - d) Midwest
- **Sub-region** — 9 geographic subdivisions of states based on National Census divisions. Sub-regions may be shown for respondents within a state that does not have sufficient responses to secure statistical validity (see below).
 - a) East North Central (Midwest)
 - b) East South Central (Southeast)
 - c) Middle Atlantic (Northeast)
 - d) New England (Northeast)
 - e) South Atlantic (Southeast)
 - f) West North Central (Midwest)
 - g) West South Central (Southeast)
 - h) Mountain (West)
 - i) Pacific (West)
- **State** — available if the respondent is in a state that participated in the survey and received sufficient responses to make the data statistically projectable.

Firm Size — (based on net client fees) "Major" firm classes of Small, Medium, and Large, and "Minor" low and high classes of each, as defined below:

- Small -- Low -- Less than \$150,000
- Small -- High -- \$150,000 -- \$299,999
- Medium -- Low -- \$300,000 -- \$499,999
- Medium -- High -- \$500,000 -- \$999,999
- Large -- Low -- \$1,000,000 to \$1,999,999
- Large -- High -- More than \$2,000,000

Depending on your firm's attributes, you will receive a report that includes summaries for selected statistics at both higher-level size summaries (i.e., Small, Medium, and Large), as well as more splits (i.e., Medium-High) for other selected statistics. Each respondent will be assigned to a report with appropriate highly targeted firm size splits (i.e., a firm with \$300,000 in net client fees will see both the "Small -- High" and the "Medium -- Low" splits).

Average Household Income

The U.S. Census Department creates a number of detailed statistics to index the cost of living in various regions. We have selected "Average Household Income (AHI)" (the total income for a census division divided by the total number of household therein) to serve as a barometer for cost of living in various areas. We have assigned each firm an AHI for their area based upon their 3-digit zip code (i.e., "90210" -> "902").

We provide AHI data to enable firms to benchmark their practice performance against firms with comparable cost of living indicators. For example, a firm in Manhattan may be more comparable to firms in other ultra-costly areas such as Boston, San Francisco and Los Angeles. A firm in Enid, Oklahoma may compare themselves to other rural communities that have a very low cost of living -- providing them with valuable benchmarks even though few firms in their immediate vicinity may have completed the survey.

Please note that final reports are customized and may exclude subgroups or statistics that may not apply to a particular respondent or state.

Research Terms and Definitions

Some totals in the report will not add to 100% due to rounding, "No answer" or multiple answers. Several questions within the survey required respondents to indicate either dollar or percentage amounts. For such responses mean and median values are provided.

Median is the value that divides a distribution of responses exactly in half, in the sense that 50% of the responses in the distribution fall at or below that value and 50% of the responses fall above that value.

Mean is the average or sum of all responses divided by the number of responses in a distribution.

Confidence interval is the plus-or-minus figure usually reported in newspaper or television opinion poll results. For example, if you use a confidence interval of 4 and 47% percent of respondents in the survey select an answer you can be "sure" that if you had asked the question of the entire relevant population between 43% (47-4) and 51% (47+4) would have picked that answer. This parameter is actually a tolerance. It is how closely the surveyed sample agrees with the population, if the entire population were tested with the same survey. Since the confidence interval is a tolerance expressed as a percentage, we can only talk about it at a given confidence level.

It is often said that the **confidence level** is how sure we are of the results given. Technically, it is the number of times the population results would agree with the survey results within plus-or-minus the confidence interval, if the population were tested 100 times. Thus, a survey answer of 47% with a confidence interval of 4% and a confidence

level of 95 means that the population results would fall within 47% +/-4% for 95 out of every 100 times the population were tested.

The wider the confidence interval you are willing to accept, the more certain you can be that the whole population answers would be within that range. For example, if you asked a sample of 1000 firms in a particular state which accounting method they use, and 60% said Method A, you can be very certain that between 40 and 80% of all the firms in that state actually do use Method A. However, there is less certainty that between 59 and 61% of the firms in the state prefer Method A

There are three factors that determine the size of the confidence interval for a given confidence level. These are: sample size, percentage and population size.

Sample Size: The sample is the number of completed surveys we have from the population under study. The larger your sample, (number of respondent firms) the more sure you can be that the answers truly reflect the population. This indicates that for a given confidence level, the larger your sample size, the smaller your confidence interval. However, the relationship is highly nonlinear (i.e., doubling the sample size does not halve the confidence interval). Thus, a population of 5,000 does not require much of a smaller sample than a population of 50,000 at a given confidence interval and confidence level. Sampling for very small populations is clearly an exception and is not treated here.

Percentage: Your accuracy also depends on the percentage of your sample that picks a particular answer. This is partially dependent on how many alternative answers exist to a given question. If 99% of your sample said, "Yes" and 1% said "No" the chances of error are remote, irrespective of sample size. However, if the percentages are 51% and 49% the chances of error are much greater. It is easier to be sure of extreme answers than of middle-of-the-road ones.

When determining the sample size needed for a given confidence interval and confidence level, you must use the worst-case percentage (50%). You should also use this percentage if you want to determine a general level of accuracy for a sample you already have. To determine the confidence interval for a specific answer your sample has given, you can use the percentage picking that answer and get a smaller interval. Remember that if 30% of the respondents pick a given answer, then 70% did not. The accuracy for these two percentages is therefore the same. Looking at these reciprocal relationships, we can see how our greatest opportunity for error comes at 50%.

The **population size** is defined as the number of people your sample group represents from the universal group. This may be the number of firms in your state, or geographic region. Often you may not know the exact population size. This is not a problem. The mathematics of probability proves the size of the population is irrelevant, unless the size of the sample exceeds a few percent of the total population you are examining. This means that a sample of 500 people is equally useful in examining the opinions of a state of 15,000,000 as it would a city of 100,000. For this reason, we ignore the population size when it is "large" or unknown. Population size is only likely to be a factor when you work with a relatively small and known group of people (e.g., the members of an association like the PCPS).

The confidence interval calculations assume you have a genuine random sample of the relevant population. If your sample is not truly random, you cannot rely on the intervals. Non-random samples usually result from some flaw in the sampling procedure. An example of such a flaw is to only survey firms for whom we have e-mail addresses in the AICPA/PCPS database and miss firms for whom we do not have current e-mail addresses. However, outreach efforts including press releases, State Society newsletters and websites, a postcard campaign, flyers distributed at conferences and the efforts of Aon Insurance Services, Robert Half Management Resources, Paychex and AAA helped to randomize the sampling process.

Reviewing the Data

Given the depth of information provided in the reports, this year we have added a Table of Contents which will help you easily locate the specific information you are looking for within the body of your report. For each subject area, we have indicated the pages on which you can find that particular result within the Graphical Summaries, your Core Benchmark group, and the Major Regional/National group.

To further assist you, we suggest printing a copy of the survey questions so that you can compare statistics with the appropriate survey questions. To access the version of the survey appropriate to your size firm, click the corresponding link below.

Finally, we have also included the complete glossary of the terms that was accessible to respondents while completing the survey.

Links to PDF versions of survey questions

http://map.pcps.org/misc/map6/map2006_allsections_s.pdf

For firms with up to 25 CPAs. This survey version is distinguished by the entry of staffing information (i.e., chargeable hours) on a per-staff member basis.

http://map.pcps.org/misc/map6/map2006_allsections_m.pdf

For firms with more than 25 CPAs. This survey version is distinguished by the entry of staffing information (i.e., chargeable hours) on a class basis (i.e., CPAs with 3-5 years of experience).

Glossary

Primary Office

The principal place of business for your firm. If your firm has more than one office, the Primary Office is the one that is more important. If you do not have an office (i.e., you work at a client site or in your home), please consider the principal place where you work as your Primary Office for the purpose of determining location.

Sole Practitioner

A single-CPA practice.

Single-office firm

Firm with only one office

Unified multi-office firm

Firm with multiple offices operated as a single financial reporting structure.

Office of small regional firm

Firm with multiple offices operating as separate financial reporting structures, with presence principally within one or several regions of the United States.

Office of regional/national firm

Firms with multiple offices operating as separate financial reporting structures, with more than 50 CPAs, and/or presence within one or several regions of the United States.

Office of “Big 4” firm

Office of Deloitte, PwC, KPMG, or Ernst & Young.

Gross Fees

The total amount of fees earned for performing client services.

Number of Square Feet

The primary purpose of asking about square footage is to find the average office space per staff member. Therefore, please indicate the size of the office premises occupied or used by the firm's staff in normal day-to-day operations, excluding off-site storage facilities, temporary or part-time office locations, etc.

Annual Rent per Square Foot

Please include the rent and all other charges that are due the owner over the course of the year (taxes, etc.) calculated on a square foot basis. If you rent more than one suite of offices, your “rent per square foot” response may either be that for your primary location, or for the average of all your locations.

Financial Information

The date of your financial information should be consistent with the Fiscal Year provided in A7. If you do not regularly prepare financial statements for your firm, please estimate to the best of your ability. We ask that you submit the income statement on the accrual basis. However, you may submit your tax basis income statement if it is reasonably representative of your annual results. If accounts payable are not material, cash basis

statements adjusted for the estimated net value of accounts receivable and unbilled work-in progress at beginning and end of year may be submitted as “accrual basis statements”.

Net Client Fees

Most accounting firm revenues, including consulting, litigation services, and income from conducting peer reviews, etc., can generally be considered “client fees”. But some firms may have income related to their accounting practices that cannot be described as “client fees”, such as sales of publications, hardware, or software, or income derived from writing, teaching, etc. Such income should be included on the “Other Income” line.

Accounts Receivable

“Tax services” includes tax planning as well as preparation of income and all other types of tax returns. “Write-up and data processing” includes services such as maintaining accounting records, accounts receivable or payroll processing, etc.

If you do not break your sources of fees in your financial statements, please estimate to the best of your ability. “Review” and “Compilation” refer to financial statements as defined in SSARS No. 1. Please include under “Review” and “Compilation” services that are provided to clients who maintain their own accounting records and request that the accounting firm prepare or report on financial statements based on those records.

Source of Fees

“Tax Services” includes tax planning as well as preparation of income and all other types of tax returns. “Write-up and data processing” includes services such as maintaining accounting records, accounts receivable or payroll processing, etc.

Active Owners

Sole proprietors, partners, shareholders, etc. who have an equity ownership in the firm.

Full-Time, Full Year

Those employed by the firm during the entire 12-month period covered by your response.

Part-Time, Part Year

Those who either worked for part of the 12-month period covered by your response, **or** worked part-time during that span.

Professional Accountants

Persons considered to be “professional” under the firm’s quality control policies, and generally includes CPAs and those qualified to sit for the CPA Exam.

Computer Professionals

Non-CPAs with training or experience at least equivalent to that of staff accountants, who are involved in providing information technology services.

Administrator, Office Manager

Person with independent authority who manages administrative functions such as supervising, hiring and/or terminating non-professional staff, making routine purchases, entering into routine contracts such as equipment leases, or signing checks.

Paraprofessional

Persons providing technical services who are not professional accountants (e.g., accounting interns, bookkeepers, etc.)

Clerical

Receptionists, secretaries, clerks, etc.

Total Compensated Hours

Includes all hours compensated by the firm, whether or not billable to clients. This includes vacations, CPE, marketing activities, etc. to the extent that such are compensated. For instance, if a firm's standard workweek is 40 hours, and a FT employee was considered to have worked 100 hours over standard time during the year, her total hours would be $40 * 52 + 100$ or 2,180. Owners compensated hours should not include time spent on activities for which non-owners are not compensated.

Charged/Billed Hours

The total hours directly involved in providing billable services to clients, whether you record such work in terms of hours or use some other billing method.

Net Remaining

The total remaining for owners, inclusive of both compensation and all benefits. If entered individually, the net remaining for each owner.

Compensation

The total amount paid to staff, including regular wages, overtime pay, incentive, etc. It should include contributions to retirement plans, 401(k), or cafeteria benefit plans.

Billing Rate

Please enter the individual's billing rate on the fiscal year end. If you do not have a single billing rate, please enter the average for the timeframe covered by your response.

Other

Personnel who do not meet any of the above classifications.

Years of Experience

For many employees, this may be years as an accountant. For others, it may also include significant industry experience. If necessary, use employee's titles as a proxy for experience (see below), or select "N/A".

Partner: Best estimate

Director: 11+ years

Manager: 6-10 years

Senior Associate: 4-5 years

Associate: 1-3 years

New: <1 year